

BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In re of Applications of)	
)	
AMERITECH CORP.,)	
Transferor,)	
)	
and)	
)	
SBC COMMUNICATIONS, INC.,)	CC Docket No. 98-141
Transferee)	
)	
for Consent to Transfer Control)	
of Corporations Holding Commission)	
Licenses and Authorizations)	
Pursuant to Sections 214 and 310(d)))	
of the Communications Act and)	
Parts 5, 22, 24, 25, 63, 90,)	
95 and 101 of the Commission)	
Rules)	

AFFIDAVIT OF GENE AGEE

I. Introduction

In this affidavit I discuss the economies of scale and scope inherent in the traditional public switched telephone network ("PSTN") and Sprint's ION network. My affidavit will also discuss the technological and financial imperatives, which are the drivers of a national deployment strategy.

My name is Gene Agee and I am employed by Sprint as a Director of Finance at Sprint National Integrated Services ("NIS"). I received a Bachelor of Science degree in

Accounting from Southern Illinois University, Carbondale, Illinois in 1979 and a Masters in Business Administration from the University of Missouri at Kansas City, in 1998. As a Certified Public Accountant, I have experience in public accounting with Peat, Marwick, Mitchell and Company from 1979-1982 and private accounting as a manager of internal audit at Pizza Hut and director of internal audit for Interstate Bakeries Corporation from 1982-1987 and 1987-1989, respectively. I joined Sprint Corporation, then known as United Telecommunications, in October 1989 working in the Local Telephone Division as Manager of Regulatory Accounting for Missouri and was promoted in 1994 to Revenue Director for Minnesota, Nebraska and Wyoming. In 1996, I became Director of Decision Support for the National Integrated Services organization of Sprint. In that capacity I direct a financial analysis team assessing the economic value of Sprint's entry into emerging local telephone markets.

My group analyzes the financial impact of products and packages of services offerings including local exchange, long distance, Internet, wireless, data and customer premises equipment for all market segments. As part of my responsibilities, I must understand the economies of scale and scope inherent in technology deployment, the role of increased geographical deployment in recovering fixed costs, and the difference between fixed and variable cost. I have been deeply involved with the financial analysis that supports Sprint ION and understand the various cost components required to deliver the Sprint ION platform.

II Definition of Terms

The discussion of economies of scale and scope must begin with a clear understanding of the concepts and terms used. By economies of scale, I refer to an entity's ability to benefit from lower unit costs as volume increases. By economies of scope, I refer to an entity's ability to benefit from a national service offering. Fixed costs are those costs that are constant regardless of the actual number of customers served or units produced. Examples of fixed costs include all costs of research and development, software licensing, billing systems, operating support systems, communications databases, and control systems. Variable costs are those that vary directly with the actual number of customers served or units produced. An example of variable cost would be access charges incurred by inter-exchange carriers to originate or terminate calls over the PSTN. Finally, semi-fixed costs are those costs that remain fixed for a given level of activity, but then increase at critical points by some given amount. An example of semi-fixed costs would be costs associated with expansion of service into a new geographic area.

III Economies of Scale and Scope for the PSTN

All telephone service providers incur many costs that are largely fixed and do not vary markedly based on the number of customers. The costs of providing the PSTN using today's software intensive technologies involve both high fixed and semi-fixed costs. Semi-fixed costs arise in the form of equipment deployment that must occur in a geographical area in order to provide service. Much of the hardware used on a local basis in telecommunications, such as individual switches or copper wire to a new subdivision, may be added in a semi-fixed fashion. Much of the technological infrastructure

of a telecommunications firm, however, is either software related, and is thus a fixed cost (as discussed below), or represents core network hardware and is available in minimum sizes or definite ranges of sizes. Where this is the case, the telecommunication firms can benefit from increased utilization, so that these fixed and semi-fixed costs are spread across more users.

Examples of costs that are largely fixed include the costs of: (a) software that drives the services offered in the network; (b) back office systems that maintain customer and facility records; and (c) billing systems. Switching systems, whether they are traditional circuit switches such as a DMS 100 or 250, a Lucent 5ESS, or new generation ATM switches are in reality sophisticated computers that rely on extensive software programs to work. Interoperability between the core network switching systems and other network components also requires extensive software. In some instances, an equipment supplier develops this software on a speculative basis. In other instances, the software is custom built at the expense of the user. To the extent that the software is custom built or that licensing of the software requires a significant up-front payment that does not depend upon the volume of machines in use, significant fixed costs exist.

The costs of billing systems are another example of fixed costs to the service provider. The largest component of a billing system is software that contains the instructions on how to read and rate individual transactions, integrate multiple services, and provide a bill to the customer. This software is complex, significant in size, very expensive, and the size of the software program is independent of the size of the user. Thus, after investing in billing software development, a telecommunications company has a fixed investment that results in a lower unit cost for each additional customer billed

through the software. The billing systems used by long distance providers are not adequate for the provision of local service, and so long distance companies looking to provide local services must invest in new systems (or modify existing ones) as an incremental cost to local market entry.

Voice and data telephony providers use other complex and costly software programs to run their businesses in addition to those used in billing. For example, these systems known in the industry as operational support systems (“OSS”) are used to keep records of the facilities used by each customer, the services that each customer subscribes to, the facility/service routing tables, customer history, and historical service performance. The programming of each of these OSS is complex, expensive, and the cost is basically independent of the size of the user.

Increasingly, centralized databases play a role in the provisioning of telecommunications services. Examples include 800 number databases, local number portability databases, calling party name databases, line information databases (“LIDB”), and other advanced intelligent network (“AIN”) databases that are used to create new services through the manipulation of software triggers. A single pair of these databases, paired for redundancy purposes, is all that a company requires.

Much of the design and control of the network can be handled from a centralized point. The use of paired, redundant network control facilities brings economies of scale and scope as additional networks to be monitored and controlled are added at the centralized network monitoring point. Further, network designers, using standardized computer programs and network components, can design network deployments for all of the nation from a centralized point using common software. As additional engineering

work is performed using a common software platform, economies of scale and scope are realized.

What is occurring in the industry is the creation of large and complex software platforms, centralized databases, and centralized network engineering and monitoring facilities whose cost is largely independent of the size of the company deploying this technology. As a result of the largely fixed investment, great economies of scale and scope are created and available in the telecommunications industry.

The result is that any provider of a new service must consider the largely fixed costs of the offering, as well as its ability to recover these costs. Any provider of a new service will have to incur some or all of the types of fixed costs described above before it can offer that service. In addition, providers typically incur additional fixed costs over time as they improve and add functionality to their service. A company that has relatively small scale and scope has much higher per-unit costs for these functions than a company with larger scale and scope. The differences in the scale and scope of companies using these platforms and facilities translates into real marketplace differences in pricing as a smaller scale company struggles to compete with a larger company that can allocate recovery of its high fixed costs over a much larger customer base.

IV. Sprint ION Costs

Earlier this year, Sprint announced its new Sprint ION strategy which seeks to create and extend a single data network to the customer's premise to provide integrated, all-distance, voice, data and video services. Sprint owns national long distance networks today which provide voice and data services to both businesses and consumers over distinct and separate networks. The existing all digital, fiber optic long distance network

will become the backbone for the transmission of all traffic types. Sprint's previous investment in the digital, fiber optic network allows it to quickly migrate to an end-to-end high speed, high bandwidth data network.

Although Sprint ION leverages the existing long distance fiber optic network, Sprint must expend substantial additional capital to develop and implement Sprint ION in order to extend our network to the customer premise and offer a new service to customers. This new investment will have primarily fixed and semi-fixed cost characteristics. During the keynote address at Internet World, Sprint Chairman and CEO, Bill Esrey, disclosed that "we've already invested more than \$2 billion in building the network, and we have another \$400 million in investments lined up."¹ The remaining development investment, as outlined by Mr. Esrey, is smaller than the facilities investment required to deploy ION.

Sprint will need to deploy Sprint Service Nodes ("SSN"). The SSNs are physical assets deployed in target markets that run Sprint ION enabling software. The incremental cost for deploying an SSN includes acquiring the physical facilities and hardware as well as establishing physical connections to Sprint's long-distance network and the incumbent's local exchange facilities. These deployment costs are driven by both markets selection as well as the location of Sprint ION customers within the market, and, once installed are relatively insensitive to volume.

In addition to the SSNs, Sprint ION service to many business and consumer locations require the integration of all customer traffic over a common access facility through the use of a digital subscriber line access multiplexer (DSLAM), located at the

¹ CEO Chairman, Bill Esrey, Internet World Keynote Address, Chicago IL., July 15, 1998.

central office. Total estimated initial investment that will be required for the physical asset deployment of SSNs and DSLAMs is in excess of \$400 million.

Sprint ION must also develop the SSN software. Software defines how traffic negotiates the network and provides premium functionality to differentiate Sprint ION from other communication offerings. Software costs are driven by software feature specifications. Key software in the SSN includes the previously unavailable capability to offer quality voice service over packet-switched networks and the capability to dynamically allocate bandwidth by the customer. The Sprint ION Service Node will also provide what is known in the industry as “class 5 features”. These include software capabilities such as call-forwarding, caller ID, call waiting, and speed dialing that have previously been available in the network only through circuit switches.

Software development is a significant fixed cost that is insensitive to volume, and once developed, software has significant economies of scope through deployment in service nodes across a national footprint. The software to run the SSN is standardized and is being developed for Sprint at an estimated cost of \$100 million.

Sprint is also undertaking significant modifications to existing systems and the construction of many new systems to support its Sprint ION service. For example, Sprint’s existing long distance billing system is not capable of performing local billing or billing products like Sprint ION. Modification of this system and other support systems required to meet the needs of Sprint ION will cost \$320 million.

Sprint must incur each of the costs noted above to offer its Sprint ION service to customers. The estimates of development and initial deployment cost exceed \$800 million. All of these costs are either fixed or semi-fixed costs.

V. Additional Fixed Cost Activities

There are additional economies of scale and scope available to telecommunications companies. A prime example is mass advertising economies. The development of a mass advertising campaign is very expensive from a production standpoint. Examples of such advertising media include national television, national magazines, and national newspapers such as the Wall Street Journal and USA Today. Economic efficiency is gained as the geographic scope of the target market is increased. It is much more economic per customer to use national television to reach a market which include all of the United States than to use it to reach only potential customers in the State of Texas. As the size and scope of the target market increases, the cost per presentation to potential customers via national advertising campaigns is reduced.

Sprint has already begun national advertising of Sprint ION service using the television medium. Through television, business customers nationwide are being told that they will be able to subscribe to Sprint ION. At the Sprint ION announcement, Sprint presented information to the national press and received nationwide newspaper, television and other print media coverage. Sprint is using nationwide mass media to deliver its Sprint ION message to potential business and residential customers. Sprint spent \$290 million promoting its nationwide products in 1997 and anticipates a similar campaign for its suite of products that now includes Sprint ION.

Today, Sprint serves over 16 million businesses and consumers in the United States. A national customer base lowers acquisition costs, accelerates acquisition time, and, as described above, provides the opportunity to spread national marketing costs.

The national scope of Sprint ION can also leverage the existing national distribution and affinity programs such as AARP and Radio Shack used to sell current Sprint services.

VI Sprint ION's Value to Customers

Sprint ION has value to customers by offering cost savings and increased functionality and features. Sprint ION allows customers access to multiple services over a single, broadband access facility with managed bandwidth capabilities. These features enable users to make more efficient use of telecommunications services and networks than they are able to do today under the PSTN platform. Customers' access costs are lower than when they must use multiple, separate access facilities, one for each type of service. As a result, customers can be expected to have greater access capacity and capability, which in turn means the ability to exchange communications they otherwise could not. In other words, ION effectively will allow customers to utilize services they would not choose to utilize (or utilize to the same degree) at prevailing prices.

Thus, Sprint ION provides additional features and functions. At the consumer level, an access circuit that today provides only one plain old telephone service ("POTS") line would be capable of providing up to six POTS-like lines, or a combination of narrowband and broadband services managed by the customer on a dynamic, as-needed basis. The need for and costs of multiple physical access lines in order to make or receive calls (and avoid busy signals) while another member of the household is on the Internet, for example, is eliminated. As another example, the Internet access that blocked calls today over the analog loop can occur over the digital loop not only simultaneously with a voice call but also at much greater speeds. For business users, network use also becomes more efficient. Today, for example, an ordinary private line customer with a

dedicated access link is able to pass traffic at given speeds or below subscribed for in advance. If the private line service is integrated on Sprint ION, however, the customer's data traffic could use the much larger integrated access link to pass the traffic at much higher speeds, again on a dynamic, as-needed basis. With Sprint ION, business customers no longer will be forced to choose between leasing an expensive, fixed high-bandwidth pipe which sits underutilized much of the time or forgoing the greater bandwidth.

Customers realize savings as multiple, stand-alone services (e.g. local voice, frame relay, Internet traffic, ATM, and long distance voice) are moved from separate, inefficient access facilities to a single, more efficient, integrated access facility. The integrated facility also will facilitate increased functionality and flexibility for communications between locations served by Sprint ION.

In telecommunications, the value of the increased functions and features at the originating end of the transmission is, of course, constrained by the capabilities at the terminating end. The full functionality of ION will be available to ION subscribers only. For example, video conferencing and other broadband applications between and among households will be possible if those households are Sprint ION subscribers. In the private line example, the off-net location would restrict the transmission to a subscribed maximum speed rather than higher speeds available on a managed bandwidth basis over the Sprint ION integrated access link.

Clearly, new products and services like Sprint ION are most beneficial if they are widely distributed and connected via a reliable network. For example, the first

fax machine had little value as a single machine. As more fax machines were purchased and utilized, the value of all fax machines increased. The same will be true of Sprint's ION network. The more customers utilizing a single broad band pipe to their premise and complete on-net Sprint ION traffic, the greater the value of the Sprint ION network to all users. Video telephony has little value if only a handful of people have the capability. However, much like the Internet, the value of the Sprint ION network is enhanced once many customers are networked together. Thus Sprint's ION envisions multiple ION Service Nodes and users all connected over a broadband network to provide new and innovative products and services through Sprint ION.

In addition, Sprint ION customers will realize savings over off-net calling prices as traffic is transported on-net. Sprint's costs for carrying traffic that only either originates or terminates on the Sprint ION platform are different from the costs that Sprint incurs for Sprint ION on-net traffic where both the origination and termination point subscribe to Sprint ION service. Sprint confronts different and lower costs for carrying on-net calls than carrying off-net calls. For on-net calls, Sprint can carry the entire call between customer premises without needing to translate the transmission from or to the traditional circuit-switched platform. For switched voice services (traditional long distance) involving off-net facilities, Sprint will incur additional costs to perform the necessary translation from ATM protocol at a Sprint Service Node before receiving/delivering the call from or to an off-net, circuit-switched environment. Of course, these calls involving off-net transactions also incur per minute access charges that are assessed by the incumbent local exchange carriers. Thus, for traffic that either originates or terminates to locations that are not served by Sprint ION, additional costs

are incurred above those required to carry a call connected via Sprint ION at both ends. Sprint plans to recover these higher costs through applying traditional Sprint product pricing, or some form of higher pricing that reflects the difference in costs, for service to off-net locations.

When both ends of a call are on-net, all of the cost benefits described above are realized. The greater the penetration of Sprint ION in the marketplace, whether within multiple locations of a single customer, or across diverse customers, the greater the savings that a Sprint ION customer may achieve. If Sprint ION does not reach some level of critical mass by being available across the nation to a large portion of a customer's locations or if only a small portion of a customer's call complete on-net, there may not be sufficient savings related to Sprint ION to justify movement from the status quo.

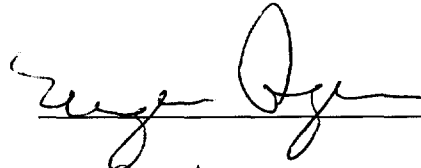
Market realities and the cost profile of Sprint ION to the customer lead to the conclusion that a customer that can maximize its on-net Sprint ION traffic is most attracted to Sprint ION service. This means that the unavailability of Sprint ION service in one region of the country has a chilling impact upon the ability of Sprint to market Sprint ION service in other areas of the country because it is more difficult for the customer to achieve the benefits promised from Sprint ION on-net transactions. Without these cost savings and increased functionality generated through contacts with other locations that can receive Sprint ION traffic on-net, many customers will choose to remain with their current service configuration because of customer inertia – a customer without a compelling reason to change carriers or services will not do so.

VIII Conclusion

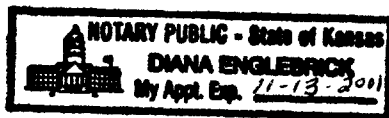
Many of the costs of firms providing voice and data telephony are largely fixed or sunk costs that are independent of the size of the firm providing the service. As the scale and scope of the firm increases, the sunk or fixed costs become a smaller portion of the total costs of the firm. Sprint will have to incur such fixed and semi-fixed costs to offer its new Sprint ION service customers. Other carriers also will have to incur such costs in order to develop and offer new local or combined local and long distance services.

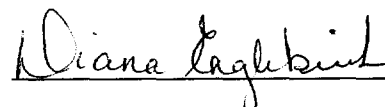
The value of the Sprint ION service to customers increases as the number of customers and geographic scope of Sprint ION service increases. Customer savings and the value to customers of Sprint ION service are maximized as more Sprint ION customers come on-net. The lack of availability of Sprint ION in a region will cause significant harm to the Sprint ION value proposition and harm the value of Sprint ION to customers.

I hereby swear, under penalty of perjury, that the foregoing is true and correct, to the best of my knowledge and belief.


Gene Agee

Subscribed and sworn before me this 12th day of October, 1998.




Notary Public

My commission expires:



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AFFIDAVIT OF STEVEN SIGNOFF

1. My name is Steven Signoff. I am Vice President of Strategic Business Development for the Sprint Business unit of the long distance division of Sprint. I began my professional career at Sprint in 1989 in the finance organization. Since then, I have served as executive assistant to the president of the National Markets Group and the president of the Small and Medium Business Marketing Group. Other positions have included director level assignments to lead Sprint Quality efforts and Strategic Planning. In 1996, I served as an executive on assignment to France Telecom in Paris, France for eighteen months. I returned to the United States in June of 1998 and was

appointed Vice President of Strategic Business Development, leading the functions of strategic planning, business development, global alliance management, business transformation, program management, market research and competitive analysis.

2. I have been asked to provide this affidavit in connection with Sprint's participation in the FCC's proceeding to review SBC's proposed acquisition of Ameritech. More specifically, I have been asked to evaluate the claim made in the Application that the merger is necessary for SBC and Ameritech to provide local services outside their regions, particularly through the proposed "National-local" strategy. I have reviewed both the public interest section of the Application and an affidavit submitted by James Kahan. SBC and Ameritech argue that the merger is necessary to allow them first to accumulate 20 in-region incumbent markets and then launch service in 30 other domestic markets (as well a number of foreign markets) all in an effort to 'follow the [in-region] customer.' The outcome of not doing this, they claim, is to risk losing their in-region customers to competition.

3. I address and respond to a number of assertions and assumptions in this "National-Local-Global" strategy. The strategy assumes that SBC and Ameritech must 'follow the customer.' The Application states that the parties believe that they must position themselves to serve at least 70%- 80% of the telecommunications requirements of the largest customers. This is characterized as one of their "most fundamental assumptions." Kahan at ¶ 48. While no specific basis for the 70-80% figure is

given or explained, the Application assumes that the largest users want sole source supply arrangements: "Customers now see an opportunity to obtain what they want -- the option of having one principal source of service, one source of contact and consolidated lines across the nation and across the world". Kahan Aff. at page 10, also page 12. Another fundamental assertion is that SBC and Ameritech cannot adequately enter out-of-region markets unless they have a secured customer base in each local market they enter: "In the absence of the merger, SBC does not believe these strategies are viable and does not contemplate out-of-region entry into local exchange markets." Kahan Aff. at p.31.

4. As described in greater detail below, these assertions bear little resemblance to Sprint's marketing experience. Large users frequently and quite deliberately divide their telecommunications requirements among different providers, and so there is no particular reason to believe that only those suppliers geographically positioned to serve a set percentage of any one customer's needs will be considered. Also, competitive entry into local markets will most often require marketing to target customers without any pre-existing relationships. Because the largest purchasers of telecommunications services are sophisticated purchasers, and because SBC and Ameritech each are independently recognized by this group of customers as established, experienced providers of telecommunications services, I believe Mr. Kahan has placed too much emphasis on prior business relationships and brand recognition in this

context. I discuss these issues in more detail below.

5. It may be helpful to begin by recognizing that the National-local strategy comprises competition in three distinct marketplaces: long distance , in-region local services, and out-of-region local services. I assume here that interLATA authority has been granted, since otherwise this strategy appears to make no sense at all. As a businessman, I believe these markets present very different sorts of challenges, particularly for local monopolists such as SBC and Ameritech. The long distance market is very competitive, especially so in the market for the largest users. Local markets, on the other hand, each are dominated by a monopoly provider only just beginning to see a very small and fragile amount of competition. Here, the incumbent advantages are substantial, especially until the rules for opening these markets are fully set and implemented.

6. I have set forth this set of differences because it seems to me that the strategy described in the Application seems to confuse them. For example, the need for national coverage is one I would agree with for the provision of long distance services to large users, but it is merely a wish in the context of local services, given the very limited opportunities for competition here. Also, the description of out-of-region local entry does not appear to account for the competitive problems that exist in these markets. I think it is important to consider these very different stages of competition in any discussion of a strategy to package them all together.

Follow the Customer

7. The strategy described in the Application is contingent upon two assumptions. First, it assumes that the successful deployment of the strategy requires that a very large number of large business customers are headquartered in, and can be "followed" from, SBC's service territories. Second, it assumes that, in order to sell services to these customers, a supplier must serve everywhere (or almost everywhere) the customers' operations are located. As an initial matter, I would note that if SBC and Ameritech were correct that in fact the largest customers demand sole source supply, then 70-80% coverage wouldn't suffice; only 100% coverage would meet the stated requirement. Of course, not even the pre-divestiture Bell System had this coverage.

8. The Application insists that SBC or Ameritech will be at risk of losing their existing, in-region local customer base simply because they could not 'follow the customer' for all purposes in all locations. There are two key assumption here. First, Kahan assumes that SBC's competitors *will be able* to offer 100% coverage, and so SBC must position itself to match them. Secondly, he assumes that large buyers *will want* to purchase all of their telecommunications requirements from one source. The problems with these assumptions are explained below.

9. Suppliers will generally not be able to offer sole

source arrangements for the largest users for some time to come, at least not where local services across several geographic regions are needed. Given the limited amount of local competition that has developed to date, it will be a long time before anyone will be so situated. In Sprint's experience, the RBOCs, including SBC and Ameritech, have vigorously resisted cooperating in the effort to lower barriers to entry into local markets. I have no reason to believe that this resistance will subside to any material degree in the near future. While it is true that legal changes should make it eventually easier for one company to offer local services in more and more markets, this has not yet occurred and is unlikely to occur for some time.

10. Thus, while partnering is described in Mr. Kahan's testimony as a poor alternate, it is Sprint's experience that multiple sourcing is necessary and will remain so for a long time until competitive local services are more readily available.

11. As discussed, Mr. Kahan's need to 'follow the customer' also assumes that most or all large users desire single source supply arrangements. This is not Sprint's experience, even if one were to consider only long distance services contracts. Many large buyers deliberately do not purchase all their telecommunications needs from a single source. In Sprint's experience, large users often divide up their requirements in numerous ways, e.g., purchasing voice and data lines from distinct providers, splitting their requirements among competing providers by volume or by geography, purchasing services primarily from one carrier and using another as redundant or

backup source, etc.

12. Buying patterns also vary with the locus of decisionmaking for these users, and these too can vary widely. While one would expect to see some centralization of the decisionmaking, the degree of centralization can vary materially. A large multinational business with multiple subsidiaries across the country and abroad may purchase its telecommunications needs by groups of subsidiaries in accordance with its corporate organization, by region of the country, national versus foreign, etc. Some of these differences are due to variations in the telecommunications needs of specific companies. Where local communications with the public is a priority, such as with retail businesses, localized (or decentralized) decisionmaking may be more common. In contrast, where the greatest telecommunications needs are internal to the company between and among a number of geographic areas, more centralized decisionmaking may occur. Other differences can be due to managerial preferences and such other factors independent of the underlying telecommunications needs. The point is that no one pattern captures the majority of cases.

13. Just by way of example, Sprint is one of a number of suppliers to a Fortune 100 multinational conglomerate whose corporate policies expressly prescribe the use of multiple vendors for purposes of redundancy and price leverage in negotiations. Another example is Sprint's wholesale contract to supply a large telecommunications company for only voice purposes; the same buyer has separately purchased its data transmission

requirements. Of course, the most public example is the federal government's procurement of telecommunications services, which is also divided among multiple carriers.

14. Of course, some buyers do want sole source contracts. But in our experience, no one particular pattern fairly characterizes these largest users as a group.

15. I would note my agreement with Mr. Kahan in his general observation that the legal changes of the past several years can and likely will lead to changes in the marketplace. Mr. Kahan is of course correct that, over the time period in which local telecommunications services were provided on a legal monopoly basis, buyers had no choice but to purchase local services in different regions from distinct local monopoly vendors. Once local markets are actually opened up to competition, carriers will be in a position to sell more services to customers. I disagree, however, with Mr. Kahan's assumption that where we are inevitably headed is a market where all buyers purchase all their needs exclusively from one vendor. Although local service is no longer provided as a legal monopoly, its provision has not thus far been integrated to any great extent with the provision of long distance service.

16. Nevertheless, I agree with Mr. Kahan that one-stop shopping will in the future become more important to customers. My view is that such a trend is likely because it is most efficient from an engineering standpoint to provide all services - voice and data, local and long distance - over a single packet-switched, broadband network. This is the reason for the

introduction of Sprint ION service. To my knowledge, neither SBC nor Ameritech has a similar vision of the future, however. Both apparently intend to continue to provide voice service, as they traditionally have, over circuit switched networks, and to separate the provision of data service onto packet switches. If voice and data continue to be provided separately, there would appear no overriding reason for buyers to utilize a single vendor. On the contrary, under such circumstances, the ever-increasing importance of data may lead to an increase in buyers driven by quality consideration for this set of services, leaving their voice requirements to other suppliers. In fact, Mr. Kahan's affidavit sets data (IP) apart from other telecommunications services, notwithstanding his emphasis on the importance of serving all customers with all services.

17. The 'follow the customer' assertion also assumes that large users are heavily influenced by existing business relationships. While the existence of standing business relationships can be helpful in obtaining additional business from a customer, it is not sufficient by itself and is far behind other factors in terms of importance, especially for large users who are sophisticated purchasers of telecommunications services. This is especially true where the large user is setting out to contract for some substantial set of telecommunications needs (such as when an existing contract is near expiration), as compared with a buyer looking only to add incrementally to its existing services already under contract.

18. The telecommunications services industry is made up of

many companies. Among the hundreds (if not thousands) of competitors, there is a smaller group of well-established firms with recognized expertise and experience in this field. These firms are in some cases household names, as with the major long distance carriers. SBC and Ameritech seem to assume that they enjoy this recognition only in-region, but among large telecommunications users, that employ full time telecommunications managers, their names are known throughout the country and globally. Thus, the value of brand recognition, described as a hurdle in the application, is one already achieved by SBC and Ameritech.

19. It is helpful to consider in this context how large business users make their telecommunications purchasing decision when they have competitive alternatives to consider. Large users purchase telecommunications based on a variety of factors. The two factors that are unequivocally most important are price and quality. The managers responsible for their companies' telecommunications needs are typically under substantial pressures to obtain the best services at the lowest cost. Thus, in a typical procurement effort, large users will not merely extend existing service arrangements but will open up the contract opportunity to the industry at large. Again, while managers may be reluctant to put too much of their business at risk with 'newcomer' suppliers, SBC and Ameritech are recognized and established suppliers and would not be considered risky choices on the basis of name recognition.

20. The follow the customer strategy places heavy emphasis

on existing in-region relationships. It is not clear to me exactly what is meant by this. If all SBC and Ameritech are saying by this is that, as the incumbent monopoly, they have substantial advantages in securing additional business from their customers, no one could really disagree with that statement. To the extent they believe that they will win all of a customer's business simply because they serve that customer in-region, more specifically, because that customer's headquarters is located in-region, I disagree. If nothing else, they will have to compete out-of-region for business now held by another monopoly incumbent.

21. It is important to consider the logical conclusion of the assertion that carriers will enjoy overwhelming advantages in gaining the business of large customers headquartered in their region. It would require the conclusion that carriers would not really compete for the large users but rather "divide" them based on the location of their headquarters. Moreover, if one accepts the story, it would mean that a carrier that lacks an in-region monopoly base to work from could not survive in this market environment for services to large users.

22. SBC and Ameritech seem to be arguing that they need to merge not so much in order to compete but rather to expand the size of their incumbent base so they can better leverage their monopoly outside the bounds of their current area. Thus, their story predicts a decrease in competition -- in both local and long distance services -- as customers are divided up based on the location of their headquarters. Note also, then, their story

would seem to require the conclusion that SBC and Ameritech are likely to lose the business of those large users which have branch operations in their regions but are headquartered in another region, something I doubt that either company would want to concede.

23. The underlying assumption that this will simply be a battle of a few giants is something else I question. The history of telecommunications shows that size and reputation alone won't guarantee market success. We have witnessed the success of new entrants into both local and long distance services; many of these firms were initially start-up companies. While of course buyers may seek assurances of quality and reliability in dealing with new suppliers (as well as with experienced providers), some large sophisticated purchasers are willing to take risks and may test new entrants with at least some portion of their business and expand the relationship if they're satisfied.. If this were not the case, then we would not be witnessing the tremendous growth for resellers and smaller facilities-based firms.

24. The Application provides a rather complicated set of figures to explain why the merged entity would have to reach 50 markets to succeed. It suggests a detailed analysis has been undertaken of the telecommunications requirements (by volume and location) of each Fortune 500 company headquartered in either SBC's or Ameritech's region. It is really not possible to comment on these assertions without additional information as to how these numbers were derived. Sprint is not aware of any specific, publicly available data source that would accurately

and comprehensively report this sort of data. Without the underlying basis for the assertion, however, there is no particular reason to think that any particular number of markets must be entered simultaneously for the National-local strategy to succeed.

25. Further, it is not at all clear how one can accurately divide telecommunications requirements across geographic markets without specific customer information. Certainly some assumptions would have to be made about the percentage of dollars spent on local versus toll services, and on voice versus data services. These patterns could variably considerably across the Fortune 500 companies. Because the 70-80% figure is so crucial to the stated need to enter 50 markets, its underlying rationale should be examined carefully. And because the means by which the conclusion that 50 markets must be reached is also hidden, that too should be subject to rigorous scrutiny.

Global presence

26. The Application also claims that the merger is necessary to this strategy because it will allow for the combination of the international assets of the two firms. But the merger would not materially improve either firm's international presence given the secondary nature of most of the markets in which each holds interests. For example, such major areas of international commerce as Japan, Germany and Brazil are missing from the even the combined foreign assets. The new combined firm would have to enter these locations on its own or,

far more likely will have to partner in order to serve customers with coverage of the major foreign markets.

Secured entry

27. Mr. Kahan states that it would not be prudent for either SBC or Ameritech to enter out-of-region markets alone because neither company alone would have sufficient base of secured business flowing from in-region customers. This too is inconsistent with Sprint's experience. It is in fact rare in local telecommunications services that serving the customer in one locale is a necessary prerequisite to obtaining that customer's business in another location. Obviously existing customer relationships may help, but they are not essential. As I have discussed above, SBC's name would be widely recognized in Ameritech's region (and elsewhere) among the large telecommunications users.

28. Mr. Kahan does not specify what advantages they seek to gain from this broader customer base; if he is describing an ability to exploit incumbent advantages, then all he is saying is that they want a larger monopoly base from which to capture additional service requirements. But it is my understanding that at least some of the more apparent leverage opportunities may be foreclosed by law. For example, it may be helpful to market to a potential customer if one has available proprietary information about the customer's telecommunications usage, but I understand the new law and FCC regulations substantially inhibit SBC or Ameritech from sharing this information with their competitive

affiliates.

29. It is in fact the unusual case that a telecommunications supplier can enter a new geographic area through an existing customer base. Competition will require each new entrant to prove itself in the new marketplace. Again, the success to date of new entrants that target only certain geographic areas of the country proves the assumption wrong.

30. There are of course scale economies in providing local telecommunications services in a particular market. However, the minimum scale required has been substantially reduced from earlier days, due to a variety of factors. In part, this is due to the availability of and reduced costs of smaller sized switches as well as regulatory requirements allowing for resale or leasing of unbundled elements (where the incumbent has made these meaningful opportunities). As I understand it, the purpose of the 1996 Act's requirements for resale and unbundled network elements access was precisely to allow for graduated entry into local markets.

31. In sum, a number of assertions and assumptions underlying the 30 market strategy are contrary to market experience.

I hereby swear, under penalty of perjury, that the foregoing is true and correct to the best of my knowledge and belief.



Steven Signoff

Subscribed and sworn before me this 12th day of October,

1998.

Charlotte M. Rykendaal

Notary Public

My Commission expires:

5/22/99

